

Practice questions from class today:

1. SRAS shifts right because of new resources
2. AD shifts LEFT because there will be a reduction in Net Exports
3. AD shifts right because people anticipate higher prices in the future
4. A. $195 - 185 / 185 \times 100 = 5.4\%$
5. C
6. B, check Edmodo page for a document comparing LRAS to PPC
7. C
8. A. $MPC = 200/400 = .5$. $MPS = 1 - .5 = .5$.
B. No. The spending multiplier is 2. An increase of spending by \$600 will cause a total change in GDP of \$1200. They will overshoot if they do that.
C. They need to increase spending by \$300 to achieve their goal. $\$300 \times 2 = \600
D. Yes, because the increase in spending would cause an increase in GDP of \$1200. HOWEVER, the increase in taxes would cause a decrease in GDP of \$600, making the total change in the economy equivalent to the spending. This is the Balanced Budget Multiplier effect.
9. A, we usually just refer to it as the Spending Multiplier
10. D, it is a purely financial transaction.
11. E, Nominal GDP is equal to Quantity X Price. Real GDP holds price constant.
12. C
13. C, that changes QUANTITY supplied.
14. a) Should show the intersection of the AD/SRAS line to the LEFT of the LRAS line. B) Recessionary gap explanation. Unemployment up, people accept lower wages, input costs down, SRAS increases.
15. a) In long run equilibrium and THEN AD shifts right, causing an inflationary gap. B) Inflationary gap classical theory. Prices up, real wages down, workers ask for nominal wage increases, this causes SRAS to shift left over time. C) See 3-8 number 11.
16. B, this is an SRAS determinant
- 17 & 18. ??? Not sure what happened here.
19. A, because the market basket in year one was \$3500. In year two it was \$3000. Since I'm only comparing these two years, I can just go straight to percent change. Don't need CPI here because it's strictly a year to year comparison. $3000 - 3500 / 3500 \times 100 = -14.2\%$
20. On FR TEST!!!!
21. B, this is Stagflation
22. D, you just get higher prices for the same stuff.